

**Taras Kuzio PhD, Visiting Professor**  
**Institute for European Russian and Eurasian Studies,**  
**Elliott School of International Affairs,**  
**George Washington University,**  
**1957 E Street, Suite 412,**  
**Washington, DC 20052,**  
**Tel: 202 - 994 7914**  
**Fax: 202 - 994 5436**  
[tkuzio@gwu.edu](mailto:tkuzio@gwu.edu)  
[www.ieres.org](http://www.ieres.org)  
[www.taraskuzio.net](http://www.taraskuzio.net)

Committee on International Relations  
U.S. House of Representatives  
Washington, D.C. 20515

Subcommittee on Europe and Emerging Threats

LOCATION: Room 2255 of the Rayburn House Office Building:  
DATE: Wednesday, July 27, 2005  
TIME: 1:00 p.m.

SUBJECT: Ukraine: Developments in the Aftermath of the Orange Revolution

### **Testimony**

Viktor Yushchenko's election as Ukraine's third president was made possible by the Orange Revolution, the third democratic revolution that followed Serbia in 2000 and Georgia in 2003. Ukraine's democratic revolution has influenced successful revolutions in Kyrgyzstan and Lebanon. The Orange Revolution is continuing to give sustenance to democratic reformers in Armenia, Azerbaijan, Kazakhstan, Belarus and, most importantly, to Russia.

In comparison to the Serbian and Georgian democratic revolutions, Ukraine has a stronger starting position to succeed in its reforms. Unlike Serbia and Georgia, Ukraine is not a failed state. Ukraine's economy, unlike Serbia's and Georgia's, was also growing at a record 12% in 2004, the highest growth rate in Europe. Ukraine also differs from Serbia in that the old guard, who are now in opposition, are demoralized and cannot mobilize voters using extreme nationalism.

Ukraine differs from Serbia and Georgia in that no portion of its territory is beyond central control. Kosovo remains beyond Serbian government control and Belgrade continues to have conflicts with Montenegro over the continued usefulness of any Union. Georgian President Mikhail Saakashvili inherited a country with three regions beyond

central control: South Ossetia, Abkhazia, Ajaria, of which only the latter has been returned to Georgian sovereignty.

Ukraine's stronger starting base for reforms gives greater grounds for optimism in the success of the reform drive under Viktor Yushchenko. Yushchenko's clean personal record as National Bank Chairman and Prime Minister, his relative youth and the limited Soviet influence upon his career path, gives little doubt that Yushchenko is personally committed to Ukraine's democratic path.

At the same time, we should not under-estimate the difficulties that lie ahead. Ukraine's regional divisions gave Yushchenko only 52% of the vote *after* the Orange Revolution, far less than the 96% received by Saakashvili.

These realities forced Yushchenko into undertaking three compromises. The first with the Socialists to include them in the Yushchenko alliance, the second with Parliamentary Speaker Volodymyr Lytvyn to keep parliament open and the third with President Leonid Kuchma in round-table negotiations to permit a re-run of round two of the election on December 26, 2004. Yushchenko also inherited a Kuchma-era parliament with which he has to deal until the March 2006 election. These compromises and inheritances impacted upon the policies and strategies undertaken by President Yushchenko his first year in office.

Ukraine's Orange Revolution inevitably led to over-inflated expectations, some of which will not be met. Through 2005 many of these expectations continue to be fulfilled by the Yushchenko administration, Yushchenko and Tymoshenko continue to have high popularity rates ranging between 55-65%.

The Orange Revolution took place because many Ukrainians changed their view of Ukrainian politics from one of "A plague on all of your houses" where *all* politicians were viewed as corrupt. Yushchenko changed this widespread view by convincing a majority of Ukrainians that he and his political allies *were* different.

The continued salience of this view that Yushchenko is different from politicians in the Kuchma camp is central to the success of the Orange Revolution. This continued salience will determine whether voters continue to believe Yushchenko is different. Or, they instead, become disillusioned and begin to see Yushchenko as little different to these politicians he replaced.

After severe domestic and Western criticism of government economic policies during Yushchenko's first 100 days important corrections were introduced in May-June 2005. In contrast, the Yushchenko administration's policies in democratization, media freedom, reducing the power of oligarchs and battling corruption have been positively received by the USA.

Changes in economic policies, coupled with continued successes in democratization and battling corruption, will move Ukraine in a positive direction during the remainder of the transitional revolutionary administration until the 2006 parliamentary election. This overall positive trend, coupled with the victory of reformist forces in the 2006 election, will be important in preparing Ukraine for 4 years of reforms that will not be interrupted by elections.<sup>1</sup>

Ukraine's reform path under Yushchenko will gather speed after the March 2006 parliamentary election. With control over the executive, government and parliament,

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<sup>1</sup> After 2006, elections are not due until October 2009 (presidential) and March 2011 (parliamentary).

Ukraine will, for the first time, have a leader committed to reform that is also in control of Ukraine's three key institutions.

There is little debate that democratic progress will take place under Yushchenko. But, democratic progress will be at a medium pace. Ukraine's democratic progress will be slower than that experienced in central Europe because of the negative legacy of Soviet totalitarian-imperial rule, and 12 years of misrule under post-Soviet leaders. Other factors include weak administrative capacity (i.e. the ability of the leadership to implement policies on the ground) and Yushchenko's leadership style.

The success – or failure – of Ukraine's Euro-Atlantic drive and if Yushchenko is re-elected for a second term in October 2009 will be *not* decided by the revolutionary transition of 2005-2006. Yushchenko's and Ukraine's successful democratic consolidation will take place in the period between elections in 2006-2009/11. The USA can, and should, play a strategically important role in ensuring the success of Ukraine's democratic consolidation during this period.

### **Election coalitions**

Ukraine's politics are influenced by the broad coalition that came to power under Yushchenko and the need to build new coalitions to win a parliamentary majority in the 2006 parliamentary election. Our Ukraine is being transformed into a new ruling party, the People's Union-Our Ukraine. Opinion polls suggest that the new party will obtain one-third of the vote in the 2006 elections, up 10% on Our Ukraine's vote in 2002.

The inability of People's Union-“Our Ukraine” to obtain more than 50% popularity single handedly, forces Yushchenko to compromise to ensure the creation of a pro-presidential parliamentary majority. A three party coalition is being prepared for the 2006 election that will consist of People's Union-Our Ukraine, the Tymoshenko bloc and parliamentary Speaker Volodymyr Lytvyn's People's Party. The latter unites moderates from the Kuchma camp who did not readily support Viktor Yanukovych's candidacy in the 2004 presidential elections.

Other likely members of this election coalition include First Deputy Prime Minister Anatoliy Kinakh's Party Industrialists and Entrepreneurs, Yuri Kostenko's Ukrainian People's Party, Finance Minister Viktor Pynzenyk's Reforms and Order party and Foreign Minister Borys Tarasiuk's Rukh party. This pro-Yushchenko alliance is slated to win 50-60% of the vote, giving it a sufficient number of deputies to form a parliamentary majority.

### **Weak opposition**

Divisions within the governing coalition will not be capitalized upon by the former pro-Leonid Kuchma camp. As former ruling parties, centrist parties are finding it difficult to adjust to acting as a united and coherent opposition. Ukraine will only have a real political opposition after the 2006 election.

The decline of the Kuchma camp can be seen in changes in parliamentary factions since the Orange Revolution. The former pro-Kuchma camp has shrunk in size from 240 to 110 deputies. Key pro-Kuchma parliamentary factions have lost over half of their parliamentary deputies, some of whom have defected to Yushchenko and Tymoshenko.

Centrist, former pro-Kuchma ‘opposition’ parties – Viktor Yanukovych’s Regions of Ukraine and Medvedchuk’s Social Democratic United Party – are devoid of any ideology that could form the basis of an ideological opposition to the Yushchenko coalition. During the Kuchma era his centrist allies were ideologically amorphous.

Defeated candidate Yanukovych Regions of Ukraine Party is the most ideologically amorphous of Ukraine’s centrists. Its ratings, together with those of Yanukovych’s in the 2004 election, were high because Communist voters defected to them. This was seen in the low vote for Communist leader Petro Symonenko in round one of the 2004 election (4.5%) and in the continued low popular ratings for the Communist Party of 5-6% (compared to a 20% vote in the 2002 election).

Yanukovych will be unable to mobilize the 44% of voters who backed him in the December 2004 election. The hard-line anti-Yushchenko opposition commands a maximum of 25% of the vote. Many of the remaining 20% who voted for Yanukovych will vote for Yushchenko’s 2006 election alliance.

Ukraine’s centrists were created as ruling parties and therefore are finding it difficult to adjust to being in ‘opposition’. As ruling parties they survived only as political roofs for oligarch, regional, business and criminal interests. For example, in Trans-Carpathia the Social Democratic United Party extorted funds from businesses for a charity which it controlled. 90% of the charity’s funds then went to finance the local branch of the Social Democratic United Party.

Regions of Ukraine and the Social Democratic United Party are both led by discredited leaders. Regions of Ukraine leader Viktor Yanukovych, Social Democratic United Party leader Viktor Medvedchuk and Communist Party leader Petro Symonenko all have -50% ratings.

Many senior Regions of Ukraine leaders do not favor the Regions of Ukraine’s ‘opposition’ stance because it is bad for business. Many business supporters of former pro-Kuchma parties do not want confrontational relations with the authorities.

Since the Orange Revolution the former Kuchma camp has divided into two groups:

*Moderates in the Ascendancy Willing to Work With Yushchenko*

- Kinakh’s Party of Industrialists and Entrepreneurs (defected in second round of the 2004 election);
- Lytvyn’s People’s Party (sat on the fence in the 2004 election);
- Democratic Ukraine parliamentary faction;
- United Ukraine parliamentary faction;
- Remnants of the People’s Democratic Party;
- Labor Ukraine party (formerly the political representation of the Dnipropetrovsk clan);

*Hard-Line Opposition Hostile to Yushchenko*

- Social Democratic United Party;
- Regions of Ukraine.

These many factors that debilitate the 'opposition' camp are also hampered by their inability to mobilize the population. This is a consequence of how civil society is weaker in eastern-southern Ukraine than in areas that voted for Yushchenko in 2004.

The spontaneity of citizens joining the Orange Revolution from western-central Ukraine is very different from the 'managed democracy' model of civil society found in oligarch-controlled eastern-southern Ukraine. The difference can be found in the attitudes of Yushchenko voters, who tend to be younger and better educated, while Yanukovych voters tend to be over 55 and less educated.

62% of Yushchenko voters believe that NGO's are necessary while only 35% of Yanukovych voters do so. 30% of Yushchenko voters would take action to protect their rights compared to only 10% of Yanukovych voters<sup>2</sup>.

Yanukovych rallies during the 2004 election were organized by forcing or paying people to attend them. People were paid to travel to Kyiv to support Yanukovych in the Orange Revolution. The same is true of rallies against Yushchenko since he was elected. As ideologically amorphous parties, centrists do not have *real* members (as opposed to fictitious members on paper) who would defend their candidate or party in rallies, meetings, and protests.

The Communist Party remains adamantly hostile to the Yushchenko presidency. Nevertheless, Ukraine (and Russia) has changed since the 1990s when Communists could command large followings and block reform. The Communist Party is in terminal decline from its 20% support in the 2002 parliamentary election to only 4.5% for the Communist Party leader in the 2004 presidential election. Its current ratings give the Communists only 5-6% support meaning that their presence in next year's parliament will be reduced from its current 55 deputies to only 36. At its height, the Communists had 120 deputies in the 1998 parliament.

The new opposition has been unable to convince Ukrainians or international organizations (EU, Council of Europe, OSCE) that law enforcement activities against them are tantamount to 'political repression'. Only 30% of Ukrainians believe that the actions of the authorities amount to 'political repression'.

## Policy Unity and Divisions

President Viktor Yushchenko's election victory in 2004 came about as a consequence of a broad political alliance that includes left and right-wing populists -- the Socialist Party and Yulia Tymoshenko Bloc -- alongside free-market liberals and centre-right national democrats -- the Party of Industrialists and Entrepreneurs and Yushchenko's Our Ukraine.

There are few divisions in this alliance over political and institutional aims. Populists, liberals and national democrats all broadly agree on the need to:

- democratize political life;
- build respect for the rule of law;
- media freedom;
- reform the judiciary and court system;

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<sup>2</sup> Karen Buerkle, Lisa Kammerud and Rakesh Sharma, *Public Opinion in Ukraine After the Orange Revolution* (Washington DC: International Foundation Electoral Systems, April 2005).

- fight corruption and organized crime;
- remove the power of the oligarchs;
- bring to trial members of the former regime implicated in corruption and election fraud.

### *Constitutional Reform*

The only policy in the policy domain that could seriously strain the coalition in the political/institutional field relates to the constitutional reforms agreed in December 2004 as part of a compromise package to break the deadlock and hold repeat elections. However, only the Socialist Party support constitutional reforms; the Tymoshenko bloc and the Party Industrialists and Entrepreneurs are opposed, while Our Ukraine is evenly divided, fearing both to weaken the presidency's ability to push through reforms and advantage the Left. The reforms could be challenged in the Constitutional Court, over procedural irregularities in their initial passage.

### *Personal Rivalries*

Other divisions in the coalition are personal -- the product of competition for top jobs after the 2004 election. For example, the broad remit given to Petro Poroshenko, who had hoped to become prime minister, as head of the National Security Council creates the potential for 'turf wars' with Tymoshenko, and friction between the two is likely to persist.

Tymoshenko will remain as prime minister at least until parliamentary elections in March 2006. Leaving the coalition at this stage would threaten her political future, and she is protected from votes of no confidence by a period of 18-months' grace after becoming Prime Minister, which extends to the elections in 2006. Her more populist impulses will continue to jar with Yushchenko's more reformist approach, but Yushchenko has reined her in over misguided economic policies.

### *Corruption*

The Yushchenko administration inherited high levels of, and deeply entrenched, corruption. Some important steps have been undertaken to combat corruption, but much more needs to be undertaken. Criminal charges have only reached as far as the middle level of former Kuchma officials.

Many former Kuchma officials have fled to Moscow where they have been asylum. Interior Minister Yuriy Lutsenko describes this group of former Kuchma officials as a 'government-in-exile'. Russia has not only given asylum to criminals on the run; it has also lobbied in the Parliamentary Assembly of the OSCE for this organization to denounce alleged 'political repression' in Ukraine. Russia's ruling Unified Russia party has signed an agreement of cooperation with defeated candidate Yanukovych's Regions of Ukraine, continuing Russia's official support for Yanukovych in the 2004 election.

### *Gongadze Murder*

Little progress has been made in resolving the murder of opposition journalist Heorhiy Gongadze in fall 2000. 3 of the 4 policemen who murdered Gongadze have been arrested. But, the head of the murder group, General Oleksiy Pukach, has fled abroad, reportedly to Israel. Former Interior Minister Yuriy Krawchenko committed suicide or was murdered.

The key suspects in the Gongadze case, former President Kuchma and Parliamentary Speaker Volodymyr Lytvyn<sup>3</sup>, have not been charged. There is strong suspicion that Kuchma was given immunity during round-table negotiations in December 2004, after lobbying by EU Xavier Solana and Polish President Aleksandr Kwasniewski.

Progress in the Gongadze case is also hampered by the exiled presidential guard Mykola Melnychenko. Melnychenko's tapes made illicitly in Kuchma's office recorded a voice resembling Kuchma's ordering Interior Minister Krawchenko 'to deal' with Gongadze. Melnychenko has been unwilling to cooperate with the Ukrainian Prosecutor's office or hand over the original tapes.

### *Economic Reform*

On economic policies, the coalition is divided between state interventionists (Socialists and Tymoshenko bloc) and free-market liberals (Party Industrialists and Entrepreneurs, Our Ukraine), who have clashed over key issues:

**Regulating food and fuel prices.** The government's decision to impose price caps after an oil price hike in April 2005, alongside Tymoshenko's decision to confront directly the Russian oil companies that supply most of Ukraine's oil, arguably only succeeded in creating a petrol shortage. Yushchenko and certain figures in the cabinet, notably First Deputy Prime Minister Anatoliy Kinakh, criticized the government's handling of the crisis, in particular the departure from allowing market forces to determine pricing. Yushchenko suggested in a meeting with Russian oil executives that Tymoshenko should resign, although he later stepped back from this step.

**Re-privatization.** Tymoshenko has voiced support for investigating 3,000 privatizations undertaken since 1992, while Yushchenko and Kinakh supported a list of 29 companies. After the min-Davos World Economic Forum summit in Kyiv in June, it was decided to not draw up any lists of companies slated for re-privatization.

Tymoshenko's statist views are supported by the new head of the State Property Fund, Valentyna Semeniuk (Socialist Party). Left and right-wing populists support maintaining state control over large 'strategic' enterprises if they are re-privatized; Yushchenko supports their submission to new, transparent tenders or asking the current owners to pay the market price. Yushchenko's more pro-market views will dominate government policy.

One area of economic policy that the coalition has not disagreed on is a socially oriented budget. Pensions and state salaries were increased ahead of the 2004 elections by then Prime Minister and presidential candidate Viktor Yanukovich. The new government had to continue these commitments, but has added new spending of its own.

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<sup>3</sup> Lytvyn was head of the Presidential Administration in 2000 when Gongadze was murdered.

Higher pensions and state salaries risk higher inflation and slower growth. Nevertheless, they are supported by both strands in the coalition, partly to reduce the need for corruption by making state salaries sufficient to permit a reasonable standard of living for state officials, but also to increase support for the coalition in the 2006 parliamentary election, especially in eastern and southern Ukraine.

### **Conclusion**

Ukraine's progress towards reform under Yushchenko will progressively move forward and become faster after the 2006 parliamentary election. Yushchenko's election coalition will win a parliamentary majority, giving it control over the government.

The speed of reforms will be at a medium pace, compared to their rapid progress in central Europe and the Baltic states. The reasons for this are inherited legacies from Soviet rule and mismanagement and corruption since 1992. A faster reform pace is also constrained by two other factors. First, regional divisions, with support for reform lower in eastern Ukraine. Second, the need to build up administrative capacity to permit Yushchenko's policies to be implemented at the local level.

Yushchenko's reform program is being undertaken in a more benign environment than that of the 1990s. First, the opposition is in decline (Communist Party) or lacks legitimacy (former pro-Kuchma centrists). Second, the worst aspects of reform, - shock therapy – have already taken place. Third, since 2000 the economy is growing.